RESEARCH HIGHLIGHTS

Socio-Economic Series Issue 65

ALTERNATE TENURE ARRANGEMENTS

Introduction

Canadians use a variety of tenure arrangements to acquire housing. Common forms of tenure include freehold ownership, condominium ownership, and rental. Alternate tenure arrangements are less widely used, but nonetheless have the potential to increase the range of affordable housing options to meet changing consumer preferences and needs. To help increase awareness of the types and range of alternate tenure arrangements, as well as their potential to increase housing affordability, CMHC carried out research and produced a report named "Alternate Tenure Arrangements". The report presents the results of this research and discusses and compares the various types of alternate tenure arrangements that are currently available in Canada. These include life leases, equity co-ops, leaseholds, and shared equity arrangements. The report also includes a discussion on cohousing, which is a newly emerging form of collaborative housing that can feature a variety of tenure types.

Objectives and Methodology

The objectives of this research were:

1. To develop a report on the range and types of alternate tenure arrangements that are currently available in Canada; and

2. To assess the extent to which housing projects using various types of alternate tenure arrangements are meeting residents' needs, preferences, and expectations.

The research included reviewing current literature on the range of alternate tenure arrangements that are available in Canada and carrying out 30 case studies of housing projects across Canada featuring various types of alternate tenure arrangements. The case study research involved visits to each of the projects, in-depth interviews with the project administrators and sponsors, and interviews with residents.

Findings

Impact on Affordability

Alternate tenure arrangements have the potential to create housing that is affordable relative to market levels, especially over time. For example, two-bedroom ground oriented units in a 13 year old equity co-op in Surrey, a suburb of Vancouver, have sold for $69,000 since the day the project opened in 1987. In 2000, this is less than one-third the cost of new row units. Although some co-op members are concerned about the inability to realize any equity gains, others believe that the objective of the co-op to provide affordable housing in the long term can only be met if capital appreciation is not permitted. Other equity co-ops are tied to more flexible arrangements - 85% of market value for example, or equity gains equivalent to increases in the Consumer Price Index. New legal structures for equity co-ops in some provinces have made financing easier, thus increasing the accessibility of these projects for prospective members.

In a similar fashion to some equity co-ops, many life lease projects are based on a model whereby entrance fees will

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not increase over time, meaning that they too will become increasingly affordable in future years. The non-profit nature of almost all life lease projects may also result in savings in capital and operating costs. The fact that life lease projects are financed by their residents may create some cost-savings during the development process, in addition of course to providing the means by which the projects are created in the first place. Leasehold arrangements also have the potential to reduce housing costs and enhance affordability. Purchasers of leasehold interests do not buy the so-called reversionary interest in the land, meaning that at the end of the lease term the land reverts to its owner. Leasehold buyers may also benefit from various other savings if landlords can reduce costs for items such as legal and servicing costs.

Cohousing communities value diversity and try very hard to include residents of all income levels. On occasion, this has been possible because of special arrangements made with municipalities to allow a greater than normal number of units in exchange for the provision of below-market housing units. In other cases, cohousing communities have created an internal financial framework that allows lower income households to live in the community.

An example of an alternate tenure arrangement where the affordability impacts are immediate rather than long term is shared equity. One of the case study projects in the report is able to create homeownership opportunities for very low income households, even those on social assistance.

Resident Characteristics and Level of Satisfaction with Housing

Life lease projects are exclusively inhabited by people over the age of 55. Most equity co-ops are as well, although there are a few family projects and some projects that include both seniors and families. The two shared equity case studies in this study are aimed at families, but the other two models – cohousing and residential leasehold – attract all household types.

By and large, consumers of all the tenure types assessed in this report were very satisfied with the choice of tenure they had made. Some were more satisfied than others, although where some degree of dissatisfaction was evident, it was often due to external factors not related to the form of tenure – weak housing markets for example. The source of satisfaction varied, but often was related to a strong sense of community that residents had not experienced in their former accommodation.

Sponsorship and Community Partnerships

All but two of the tenure types included in this report rely to a greater or lesser degree on community partnerships to sponsor them, develop them, finance them, and operate them. The two exceptions are residential leasehold projects, where projects are typically developed in much the same way as market condominium projects, and cohousing communities, which are created and developed by their members.

Life lease projects are almost always sponsored by community non-profit organizations such as churches and service clubs, although one life lease project in Canada has been sponsored by a municipality, and two others by a non-profit property management company. Only one privately owned life lease project was identified during the study. Community based non-profit organizations are an integral and critical component of the development process for life lease housing. Without their involvement, there would only be a fraction of the number of life lease projects that currently exists. Not only do community sponsors provide valuable resources and services during the development and construction process, their ongoing involvement in the management and operation of the projects they helped to create is also critical.

Equity co-ops may develop on the initiative of their members, but in other cases they have been sponsored by churches and municipalities, on occasion as the preferred tenure type for land leased from municipalities or other public agencies. Non-profit development consultants or resource groups can also be instrumental in the development of equity co-operatives.

The shared equity projects identified in the report and included as case studies involve a range of partners, including municipal and provincial governments; educational institutions; and private sector partners such as lenders, realtors, and contractors.

Housing Form

Most life lease projects are high rise or low rise apartments, although one ground oriented development was identified during the study. Similarly, almost all recent equity co-operatives are high rise or low rise apartments,

although one new project and several older ones also provide ground oriented accommodation. Residential leaseholds vary considerably, from single family housing on large suburban lots to high rise apartments. Most of the cohousing communities in Canada are low rise apartments or townhouses, although there is one single family development in a more rural area. Shared equity projects tend to be lower density than the other tenure types – both case studies involved single family housing.

Sources of Financing

Some equity co-ops and some life lease projects were financed entirely by member equity. Others rely to a greater or lesser degree on mortgage financing from traditional lenders such as banks and credit unions, as do residential leasehold and cohousing communities. Some shared equity projects rely significantly on funding from municipal and provincial governments.

Potential for Growth

Fifteen years ago there were no life lease projects in Canada – now there are about 200. The life lease model provides a way to combine the desire of many community based non-profit organizations to help meet housing needs in their communities with the desire of many Canadians to find housing more suitable to their needs than the single family house they may have lived in for most of their adult lives. In view of the aging of the Canadian population, it seems highly probable that the number of life lease projects will continue to grow in the future.

Other alternate tenure arrangements have also become more common as projects are built and people become more aware of their potential. The ability to strata title individual units in equity co-ops in Alberta and Québec is encouraging the development of that tenure type in those provinces. Although there are only a few occupied cohousing communities at the moment, their successful creation and the satisfaction of their residents are helping to foster the development of similar communities in other centres. Leaseholds can provide housing that is more affordable than housing built on freehold land, a fact that has helped to develop and market leasehold projects in several provinces.

Findings - Specific Tenure Types

Life Leases

Definition: A life lease is a legal agreement that permits its purchaser to occupy a dwelling unit for life in exchange for a lump sum payment (entrance fee) and a monthly payment to cover the project management fees and maintenance and operating costs. Most life lease projects are sponsored by community based non-profit organizations. Residents in life lease projects are 55+.

The first life lease projects in Canada were developed in Manitoba and Saskatchewan in the late 1980's, encouraged in part by government programs that resulted in the creation of joint life lease/rent supplement projects. Activity in other provinces has increased rapidly in recent years, although there are no life lease projects east of the Ontario/Québec border. There are probably close to 200 life lease projects now in existence, the bulk of them in Manitoba and Ontario.

Life lease projects vary widely from one province to the next and indeed from one neighborhood to the next. In Manitoba, life lease residents are considered tenants and are subject to the Landlord and Tenant Act. In Ontario, the Ontario New Home Warranty Program does not enroll life lease projects because they involve leases, not agreements of purchase and sale. In BC, life lease residents qualify for the Homeowner Grant, which helps to defray property taxes. In Saskatchewan and Alberta, life lease residents are viewed not as owners, but as purchasers of a life interest in their unit. They are not considered to be tenants.

Other major differences are how entrance fees are paid (some require entrance fees to be paid in full at move-in; others allow financing) and how are they are refunded (on exit, entrance fees may be refunded: at the same level paid; at market levels, at the original level plus a share of market appreciation (if any); or at the original level less a continually increasing percentage); the extent of guaranteed sponsor buy-backs in the event of move-out or death (very common in Western Canada); and the range of services provided.

Equity Co-ops

Definition: An equity co-op is a co-op housing development financed by its members. No government subsidies were involved in the projects examined.

Although equity co-ops have existed in the United States for decades, the oldest project in Canada was built in the late 1980's. Since then, 18 purpose built equity co-ops have been developed in BC, Alberta, and Québec, 12 of them for the 55+ market. Only 10 continue to function as equity co-ops, all outside BC. Equity co-ops in BC have been affected by poor market conditions since 1994, which have adversely affected several projects. This is partly because co-op members in BC do not hold individual title to their units, meaning all members share in the liability created when another member defaults. To overcome current market problems some BC equity co-ops have converted to strata title (condominium) status. Others are in the process of converting to strata title. Although two of the co-ops were developed on leased land, residents have been permitted to buy the freehold title to their sites.

Dwelling units in co-op housing projects in Alberta and Québec are strata titled, meaning individuals can arrange their own mortgage financing, and if one member defaults on his or her obligations, the others are not responsible for the debt This arrangement has encouraged the development of equity co-ops in these two provinces.

Leaseholds

Definition: a lease is a right in real property granted through a contractual arrangement whereby one party (the landlord) gives up some rights to immediate possession of the property to the other party (the tenant) but retains ultimate ownership of the property. When the lease ends, the property and improvements revert to the landlord. Housing may be built on land that is available for long term lease.

Residential leaseholds in Canada were fairly common in the 1960's and 1970's. They are now available in the following situations:

1. Ongoing municipal government involvement in land leasing: Vancouver is the major practitioner of this, mainly for reasons of retaining control over future redevelopment opportunities. North and West Vancouver have also leased land to facilitate the development of affordable housing for certain groups such as seniors.
2. Ongoing federal government involvement in land leasing: mostly in national parks, but also in special cases such as Harborfront.
3. First Nations.
4. Universities – UBC, Simon Fraser, University of Guelph.
5. Private sector Ontario retirement communities.

Because residents of housing built on leased land have to relinquish the land and often the improvements to the landlord when the lease ends, the housing so produced is usually less expensive than housing built on land owned by the occupant. As a result, leasehold arrangements have the potential to reduce housing costs and enhance affordability.

Shared Equity

Definition: shared equity refers to tenure arrangements which are designed to make homeownership easier and more accessible for people with low incomes.

There are a few newly emerging shared equity arrangements in Canada. This research focuses on two. Some shared equity arrangements seem to provide a workable solution to inner city housing problems in Prairie cities and other cities where there is low cost inner city housing stock in need of repair. Buyers of houses purchased and rehabilitated under the terms of these arrangements are able to earn equity in their homes over a period of years by a combination of good payment records and participation in the management and operation of their housing project. Co-op members tend to be extremely satisfied with the nature of these arrangements. Thanks to the stability in their housing situation, some have even been able to move from social assistance to employment.

Cohousing

Definition: Cohousing is short for Collaborative Housing. In a cohousing community, each household has a private self-contained residence but also shares common facilities with other residents, such as a kitchen and dining hall, children's playrooms, workshops, guest rooms, and laundry facilities.

There are only five occupied cohousing communities in Canada - four in BC and one in Ottawa – although 16 others are in various stages of development. Residents of cohousing communities tend to be extremely satisfied, in large part because residents "self-select": they choose cohousing for their residential environment.

CMHC and the Canadian Centre for Public Private Partnerships in Housing

CMHC's Canadian Centre for Public-Private Partnerships in Housing (CCPPPH) promotes and facilitates partnerships to increase the supply of affordable housing. The Centre gives advice on legal, financial and regulatory solutions, experiments with new financing and tenure agreements and disseminates information on successful practices. The Centre actively seeks out partnerships, especially at the grassroots level with such organisations as existing non profit agencies who were previously involved in the provision of social housing, faith groups, ethnic and cultural organisations, builders, developers and municipalities.

The Centre provides a number of tools to assist in developing affordable housing, including:

- "best practices" guides,
- partnership research,
- expert advice,
- new business leads,
- interest-free Proposal Development (PDF) loans, and
- facilitating access to mortgage insurance to assist groups access low-cost housing financing.

CMHC Research on Producing Affordable Housing in Canada Through PPPs

CMHC has completed a number of research reports and case studies, available through CMHC's Canadian Housing Information Centre, which examines a range of alternative measures which could be employed to support the creation of affordable housing in Canada through public-private partnerships. The following lists both published reports currently available and upcoming research to be published in the near future.

Published Research

- Guide to Affordable Housing Partnerships
- The Role of Public-Private Partnerships in Producing Affordable Housing: Assessment of the U.S. Experience and Lessons for Canada
- Municipal Regulatory Initiatives: Providing for Affordable Housing
- CMHC's Affordable Housing Web Page (www.cmhc-schl.gc.ca)
- Comprehensive Analysis of Self-Build Housing Experiences
- Public-Private Partnerships in Municipal Infrastructure
- Housing Trust Funds: Their Nature, Applicability and Potential in Canada,
- Guide to Creating Housing Trust Funds in Canada
- Municipal Planning for Affordable Housing

Upcoming Research

- Affordable Housing Solutions: 15 Successful Projects
- Background Research on Philanthropic Support for Affordable Housing

Project Manager: David Scherlowski, Research Division

Research Report: *Alternate Tenure Arrangements*

Research Consultant: Kathleen Mancer Consulting (Vancouver), OSI TandemCoop Resources (Winnipeg), Langlais et Associés (Montréal)

A full report on this project is available from the Canadian Housing Information Centre at the address below.

Housing Research at CMHC

Under Part IX of the National Housing Act, the Government of Canada provides funds to CMHC to conduct research into the social, economic and technical aspects of housing and related fields, and to undertake the publishing and distribution of the results of this research.

This fact sheet is one of a series intended to inform you of the nature and scope of CMHC's research.

The **Research Highlights** fact sheet is one of a wide variety of housing related publications produced by CMHC.

For a complete list of **Research Highlights**, or for more information on CMHC housing research and information, please contact:

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